

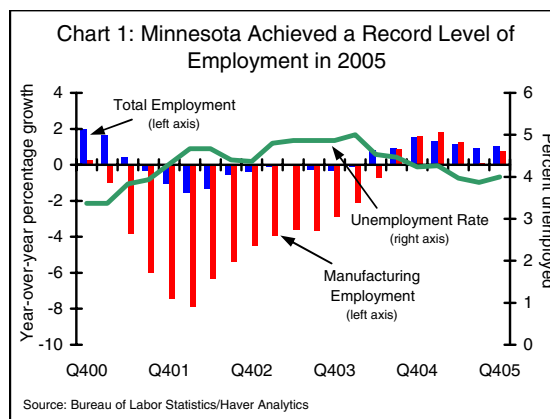
# FDIC State Profile

Spring 2006

## Minnesota

Minnesota reported a second consecutive year of robust employment growth.

- Minnesota's economy gained more than 28,000 jobs in 2005, attaining a record level of 2.72 million jobs in the fourth quarter. Year-over-year employment growth in the fourth quarter was 1.0 percent, up slightly from the previous quarter (see Chart 1).
- Minnesota's construction sector continued to lose strength. Fourth quarter year-over-year employment growth was a negative 0.15 percent, a fourth consecutive quarter in which the rate of growth declined.
- Despite strong employment growth, Minnesota's unemployment rate increased slightly to 4.0 percent in the fourth quarter, as new job seekers entered the labor force faster than they could be employed.



Minnesota's farm income is expected to decline in 2006.

- The United States Department of Agriculture (USDA) has forecasted a 22 percent decline in national farm income from 2005 to 2006 due to lower livestock and crop values and increased energy costs. Minnesota farmers can expect a similar decline in their farm income.
- Corn and soybean prices are forecast to decline 13 percent and 11 percent as two years of record harvests have led to substantial accumulations of inventories (see Table 1).
- Minnesota hog producers are forecasted to face a 13 percent decline in prices in 2006, as production has increased in response to the record profits in that sector over the previous two years. Dairy farmers can expect 11 percent less for their milk as production increases.

Energy prices for Minnesota farmers are forecasted to rise again in 2006.

- According to the USDA, in February 2006 fertilizer and fuel costs were up 16 percent and 30 percent, respectively, from one year earlier. Fertilizer and fuel costs are forecasted to increase 9.7 percent nationally in 2006 (see Table 2).
- Rising costs for fertilizer and fuel are in part due to increased global fuel demand and the continued recovery

**Table 1: Most Commodity Prices Are Expected to Decline in 2006**

	2003	2004	Est. 2005	Forecast 2006	% of MN Ag Cash Receipts
Corn	2.32	2.42	2.06	1.90	18.7
Soybeans	5.53	7.34	5.74	5.50	16.8
Cattle	84.69	84.75	87.28	85.50	10.1
Hogs	39.45	52.51	50.05	43.50	17.6
Milk	12.52	16.05	15.15	13.45	13.6
Other					23.2

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.  
Source: USDA WASDE, February, 2006 USDA/ERS 2005

**Table 2: Higher Energy Costs Are Expected for Minnesota Farmers in 2006**

	Acres* (1,000)	Cost per acre** 2006 estimates		Cost per acre** 2000-2004 Avg.	
		Fuel	Fertilizer	Fuel	Fertilizer
Corn	7,300	41.94	58.25	24.26	42.47
Soybeans	6,900	13.52	10.25	8.49	7.69
Wheat	1,820	16.95	28.24	10.38	21.20

\*Estimated 2005 Planted Acres. \*\* Cost per acre for nation.  
Source: USDA/NASS Crop Production, USDA/ERS Cost and Returns Data.

## State Profile

from last year's active hurricane season; in the Gulf region, approximately 17 percent of normal natural gas production and 25 percent of oil production remain off-line.

- Nationally, the USDA estimates that fuel and fertilizer costs accounted for 10.9 percent of total agricultural production costs in 2005, up 11 percent from 2004.

### Minnesota institutions reported strong earnings in 2005.

- Minnesota's insured institutions reported a median annual 2005 return on assets (ROA) of 1.33 percent, slightly eclipsing last year's historical high. The ROA improvement was largely due to improved net interest margins (NIM).
- The median annual NIM improved for the second consecutive year as the spread between loan yields and funding costs widened for the first time in three years (see Chart 2).
- A substantial shift in earning assets mix from securities to loans, which typically carry higher yields than securities, helped boost NIMs. The median loan-to-assets ratio has surged from 65.9 percent in 2003 to a historically high 71.7 percent in 2005.

### Minnesota institutions reported sharp increases in construction and development loan (C&D) concentrations.

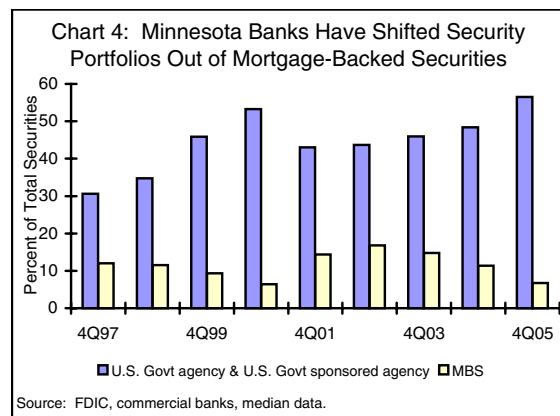
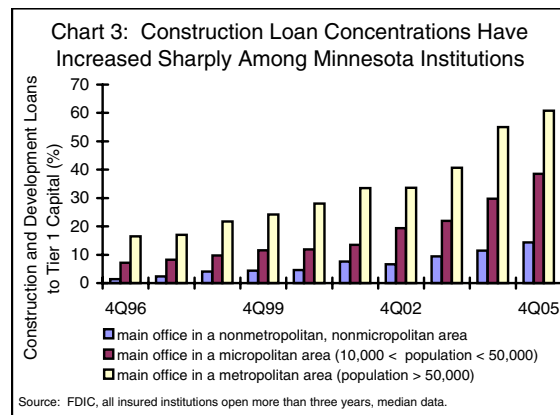
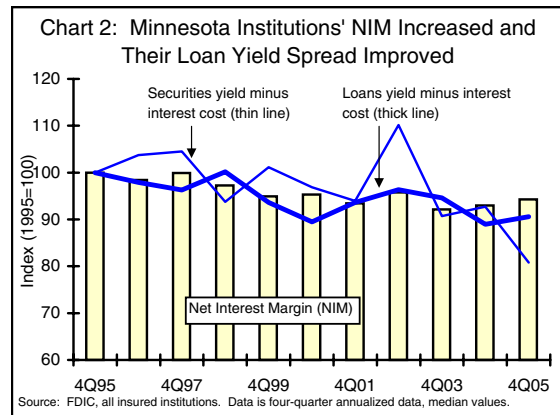
- Insured institutions, particularly those headquartered in the state's larger urban markets, reported strong growth in C&D lending in 2005, boosting C&D concentrations to new highs (see Chart 3).
- With the recent increases, C&D concentrations at Minnesota's metropolitan-based institutions mirror the national figure of 61 percent, and the state's micropolitan-based institutions exceed the national figure of 28 percent.
- A slowdown in residential construction permitting activity and rising home inventories suggest slowing residential housing markets. This could exert some negative pressure on the ability of institutions to grow residential real estate construction loans in 2006.

### Securities portfolios held by Minnesota commercial banks have depreciated.

- Rising interest rates reduced opportunities for securities gains reported by the state's commercial banks and contributed to net depreciation in securities portfolios of 1.2 percent in 2005 compared with 0.1 percent appreciation in 2004.
- Concerned about extension risk because of historically low mortgage rates, Minnesota bankers have replaced some mortgage-backed securities with U.S. Government

agency securities and U.S. Government-sponsored agency securities (see Chart 4).

- Some of these new securities are structured notes that carry relatively lower effective interest rates but reprice upward if long-term rates increase. With the flattening yield curve, many of those structured notes have declined in value as their rates have not stepped up.



## Minnesota at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	0.8%	1.5%	0.8%	-0.2%
Manufacturing (13%)	0.5%	0.0%	1.6%	-0.1%	-3.5%
Other (non-manufacturing) Goods-Producing (5%)	-0.9%	0.0%	4.0%	2.5%	0.4%
Private Service-Producing (67%)	1.2%	0.9%	1.5%	1.0%	0.5%
Government (15%)	1.2%	1.2%	0.7%	-0.1%	-0.4%
Unemployment Rate (% of labor force)	4.0	3.9	4.2	4.6	4.9

<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	3.5%	8.7%	6.5%	3.8%
Single-Family Home Permits	-6.8%	-0.1%	-5.4%	0.0%	18.7%
Multifamily Building Permits	-28.1%	-49.6%	-2.8%	5.2%	-12.5%
Existing Home Sales	-10.6%	0.7%	-2.6%	8.4%	3.3%
Home Price Index	8.0%	7.8%	8.7%	9.4%	7.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.95	5.14	3.17	3.26	3.88

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	466	469	478	478	486
Total Assets (in millions)	66,457	64,674	63,484	63,484	108,679
New Institutions (# < 3 years)	19	18	15	15	13
Subchapter S Institutions	305	306	289	289	269

<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.44	1.45	1.38	1.38	1.65
ALLL/Total Loans (median %)	1.24	1.23	1.25	1.25	1.27
ALLL/Noncurrent Loans (median multiple)	2.17	2.02	2.11	2.11	1.83
Net Loan Losses / Total Loans (median %)	0.06	0.01	0.06	0.07	0.10

<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.58	9.54	9.23	9.23	9.05
Return on Assets (median %)	1.18	1.48	1.18	1.32	1.24
Pretax Return on Assets (median %)	1.36	1.70	1.38	1.57	1.53
Net Interest Margin (median %)	4.46	4.49	4.41	4.37	4.33
Yield on Earning Assets (median %)	6.67	6.54	5.99	5.90	6.13
Cost of Funding Earning Assets (median %)	2.19	2.07	1.54	1.49	1.76
Provisions to Avg. Assets (median %)	0.09	0.08	0.10	0.12	0.14
Noninterest Income to Avg. Assets (median %)	0.59	0.59	0.60	0.60	0.64
Overhead to Avg. Assets (median %)	3.21	2.97	3.20	3.02	3.05

<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	71.7	72.0	69.1	69.1	65.9
Noncore Funding to Assets (median %)	16.8	17.8	14.9	14.9	13.0
Long-term Assets to Assets (median %, call filers)	9.4	9.6	11.5	11.5	12.5
Brokered Deposits (number of institutions)	207	204	177	177	136
Brokered Deposits to Assets (median % for those above)	5.4	5.5	3.9	3.9	3.2

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	114.3	118.9	114.4	114.4	115.7
Commercial Real Estate	200.8	197.8	178.1	178.1	154.8
Construction & Development	34.8	33.8	29.7	29.7	23.3
Multifamily Residential Real Estate	2.5	2.7	2.4	2.4	1.7
Nonresidential Real Estate	140.1	139.7	133.4	133.4	118.0
Residential Real Estate	151.7	159.0	163.1	163.1	151.7
Consumer	39.9	41.2	43.4	43.4	50.5
Agriculture	82.8	84.1	88.9	88.9	94.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Minneapolis-St. Paul-Bloomington, MN-WI	176	56,362	< \$250 million	418 (89.7%)
Fargo, ND-MN	25	3,412	\$250 million to \$1 billion	44 (9.4%)
St. Cloud, MN	34	3,217	\$1 billion to \$10 billion	3 (0.6%)
Duluth, MN-WI	32	3,094	> \$10 billion	1 (0.2%)
Rochester, MN	25	2,370		